

AR45

Consumers Distributing Company Limited

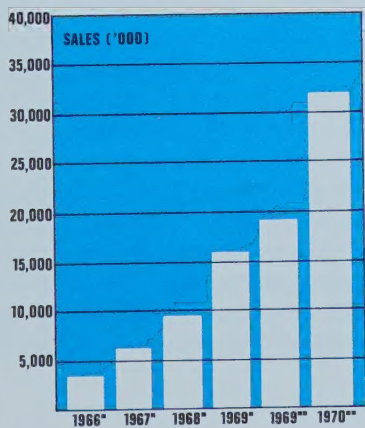
1970 ANNUAL REPORT



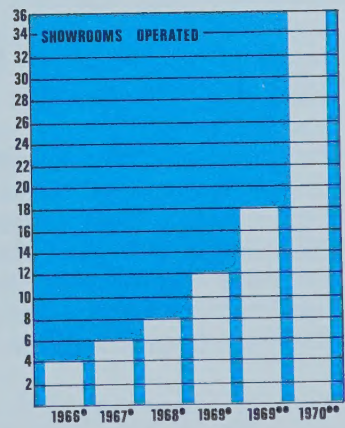
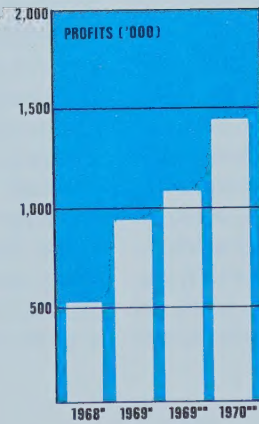
Consumers Distributing Company Limited

Financial Highlights

	1970	1969	Percent Increase
Sales ('000)	\$31,216	\$19,321	61.6
Net Profit ('000)	\$ 1,421	\$ 1,115	27.4
Earnings per share	70¢	55¢	27.4
Working Capital ('000)	\$ 5,501	\$ 2,168	156.0
Number of shares ('000) outstanding at year-end	2,025	2,025	n.c.
Showrooms in operation at year-end	36	18	100.0



*years ended August 31
 **years ended December 31



*as of August 31
 **as of December 31



To Our Shareholders:

The year 1970 saw progress in the growth and development of your company. Among the highlights —

- total profits for the year increased to \$1,421,465 from \$1,115,479 for the previous 12 months; this was equal to 70 cents per share, compared with 55 cents a year ago;
- sales reached \$31.2 million, an increase of 61 percent from \$19.3 million the previous year;
- the number of showrooms increased from 18 at January 1 to 36 by year-end;
- an agreement was negotiated with The Oshawa Wholesale Limited to establish a chain of Consumers Distributing showrooms across Canada, outside of Ontario;
- convertible debentures were issued to assist in the continued expansion of our Ontario operations.

Year in Review

The company doubled the number of its outlets by opening 18 new showrooms during the year, making a total of 36 showrooms operating at year-end. Consumers Distributing is now represented by at least one location in the major urban communities in Southern Ontario and the company has es-

tablished for itself a premier position in the distribution of its lines of merchandise.

New markets are entered only after thorough analysis of demographic factors and consumer profiles. Our newer outlets have been redesigned to obtain even more efficient use of space and are being located in prime commercial areas.

A year ago, 45 percent of the showrooms were more than two years old, while at the end of 1970, less than 30 percent were two years old. Since experience has shown that it takes at least two autumn selling seasons for outlets to fully mature, these newer locations should contribute more significantly to sales and earnings in coming years.

During the year, the company further developed its middle management strength. These new management specialists are contributing to the company's profitable growth. A strong corporate group has now been assembled, which will support a substantial expansion in the company's activities.

Polices of the federal government directed at countering inflation inhibited economic growth in 1970, resulting in increased unemployment and reduced consumer spending. Your company, however, is fortunate that its operating concept enabled it to pass through this period relatively successfully. One result of the "soft" economic conditions has been an increased price awareness among shoppers. As its network spreads and the merchandising policy becomes even more widely known, Consumers

Distributing hopes to gain from this greater awareness of value.

Merchandising Concept

The success of Consumers Distributing through its 14-year history has resulted from a wide public acceptance of its uniqueness. The concept of catalogue-showroom merchandising has enabled the company to grow to its present chain of 38 showrooms. Consumers Distributing has become a market leader because it is not a retailer, in the traditional sense. The company serves the interests of the consumer as a buyer, rather than the interests of the manufacturer as a seller, and in so doing, focuses on providing benefits to consumers — "national brand merchandise at low prices every month of the year".

Consumers Distributing(National)

To extend the Consumers Distributing concept as quickly as possible, your management in December, 1970 concluded an agreement with The Oshawa Wholesale Limited to form a new jointly-owned company, Consumers Distributing Company(National)Limited, to operate Consumers Distributing showrooms outside of Ontario. Though the new company will be managed by Consumers and financed by Oshawa, profits will be shared equally.

We are pleased to announce that Quebec will be the first province to be covered in this program and we are presently completing arrangements to open ten showrooms in the Montreal area in September.

The company has made application to register the name Distribution aux Consommateurs for the outlets in Quebec.

Financing

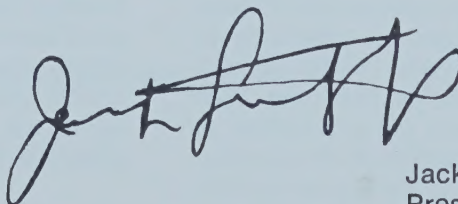
In June, 1970, the company arranged with a number of financial institutions the private placement of \$3 million of 10-year debentures, with an interest rate of nine percent per annum, convertible into common shares at \$15 per share. The proceeds of this issue are being applied to our expansion program in Ontario.

The Outlook

The company is continuing with its branch expansion program in 1971. To date, we opened our third showroom in Ottawa and showrooms at Woodstock and Stratford. Subsequent to year-end, two branches were consolidated, resulting in a total of 38 operating at February 26.

Canada is expected to resume economic growth in 1971, though perhaps not at a rate sufficient to absorb the rapidly growing labor force. It is hoped that shifts in government fiscal and monetary policies to stimulate employment and production would bolster consumer optimism during our peak fall selling season.

On behalf of the Board of Directors, and our shareholders, I take this opportunity to thank all employees for their tireless efforts which contributed to the company's exciting growth. Thanks are also due our suppliers for the continuing provision of quality brand-name products.



Jack Stupp
President

Consumers Distributing Company Limited

CONSOLIDATED STATEMENT OF INCOME AND RETAINED EARNINGS

	Year Ended December 31	
	1970	1969 (Note 1)
Sales	\$31,216,128	\$19,320,717
Cost of sales	23,454,122	14,364,124
Gross profit	7,762,006	4,956,593
Operating expenses:		
Selling and warehouse	3,546,506	1,972,715
Administrative	789,941	483,777
Debenture interest (including amortization of financing expenses of \$7,000, 1969–Nil)	164,500	—
Other interest	107,197	52,569
Depreciation and amortization of equipment and leasehold improvements	143,290	75,196
	4,751,434	2,584,257
Income before income taxes	3,010,572	2,372,336
Income taxes (Note 5)	1,589,107	1,256,857
Net income	1,421,465	1,115,479
Retained earnings at beginning of year	2,256,942	1,171,521
	3,678,407	2,287,000
Expenses of issuing shares	—	30,058
Retained earnings at end of year	\$ 3,678,407	\$ 2,256,942
Earnings per share (Note 10)	\$ 0.702	\$ 0.553

See accompanying notes

AUDITORS' REPORT

To the Shareholders of Consumers Distributing Company Limited

We have examined the consolidated balance sheet of Consumers Distributing Company Limited and its subsidiaries as at December 31, 1970 and the consolidated statements of income and retained earnings and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 31, 1970 and the results of their operations and the source and application of their funds for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

LAVENTHOL KREKSTEIN HORWATH & HORWATH
Chartered Accountants

Toronto, Ontario
February 26, 1971

Consumers Distributing Company Limited

(Incorporated under the law of Ontario)

CONSOLIDATED BALANCE SHEET

	December 31	
ASSETS	1970	1969
Current:		
Cash	\$ 1,269,305	\$ 78,815
Accounts receivable	148,230	123,440
Inventory, at lower of cost and net realizable value	10,570,227	5,825,620
Prepaid expenses and sundry assets	485,342	260,520
Total current assets	<u>12,473,104</u>	<u>6,288,395</u>
Equipment and leasehold improvements, at cost less accumulated depreciation and amortization (Note 2)	<u>1,957,555</u>	<u>800,495</u>
Other assets:		
Financing expenses, less amount amortized	114,490	—
Deferred charges, less amounts amortized (Note 3)	304,177	75,747
	<u>418,667</u>	<u>75,747</u>
	<u>\$14,849,326</u>	<u>\$7,164,637</u>
LIABILITIES		
Current:		
Accounts payable and accrued liabilities	\$ 6,515,581	\$3,509,518
Income taxes	456,641	611,246
Total current liabilities	<u>6,972,222</u>	<u>4,120,764</u>
9% Convertible Debentures, Series A, due June 30, 1980 (Note 4)	<u>3,000,000</u>	<u>—</u>
Deferred income taxes (Note 5)	<u>482,237</u>	<u>70,471</u>
SHAREHOLDERS' EQUITY		
Capital (Note 6):		
Authorized:		
6,000,000 Common shares, without par value		
Issued:		
2,025,000 Common shares	716,460	716,460
Retained earnings	<u>3,678,407</u>	<u>2,256,942</u>
	<u>4,394,867</u>	<u>2,973,402</u>
	<u>\$14,849,326</u>	<u>\$7,164,637</u>

See accompanying notes

Approved on behalf of the Board of Directors

JACK STUPP (Director)

L. S. D. FOGLER (Director)

Consumers Distributing Company Limited

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS

	Year Ended December 31	
	1970	1969 (Note 1)
Source of funds:		
From operations:		
Net income	\$1,421,465	\$1,115,479
Add charges to income not requiring a current outlay of funds:		
Depreciation and amortization of equipment and leasehold improvements	143,290	75,196
Amortization of deferred charges	77,109	10,748
Amortization of financing expenses	7,000	—
Deferred income taxes	411,766	70,471
	<u>2,060,630</u>	<u>1,271,894</u>
Issue of shares to underwriter	—	450,000
Issue of debentures	3,000,000	—
	<u>5,060,630</u>	<u>1,721,894</u>
Application of funds:		
Deferred charges	305,539	86,495
Financing expenses	121,490	—
Equipment and leasehold improvements	1,300,350	624,602
Repayments of long-term liabilities	—	100,000
Expenses of issuing shares	—	30,058
	<u>1,727,379</u>	<u>841,155</u>
Increase in working capital	3,333,251	880,739
Working capital at beginning of year	2,167,631	1,286,892
Working capital at end of year	<u>\$5,500,882</u>	<u>\$2,167,631</u>

See accompanying notes

Consumers Distributing Company Limited

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 1970

1. Principles of consolidation:

The consolidated financial statements include the accounts of all subsidiary companies. The Company changed its fiscal year-end from August 31 to December 31 in 1969 and for comparative purposes the operations for the twelve month period ended December 31, 1969 have been presented.

2. Equipment and leasehold improvements:

	Annual Rates	Cost	Accumulated Depreciation and Amortization	Net
Office, warehouse and showroom equipment	5% and 10%	\$1,651,409	\$246,759	\$1,404,650
Leasehold improvements	Term of lease	491,709	88,234	403,475
Automotive equipment	10% and 20%	201,570	52,140	149,430
		<u>\$2,344,688</u>	<u>\$387,133</u>	<u>\$1,957,555</u>

The annual rates are applied to original cost and are designed to write off the assets over their estimated useful life.

3. Deferred charges:

Pre-opening costs relating to new branches — amortized over 24 months for Metropolitan Toronto locations and over 36 months for other locations, commencing with the month after the date of opening	\$217,228
Systems development costs — amortized over five years	86,949
	<u>\$304,177</u>

Deferred charges amortized during 1970 amounted to \$77,109.

4. 9% Convertible Debentures, Series A, due June 30, 1980:

These debentures are secured by a floating charge on all the assets and property of the Company, subordinated to a \$3,000,000 first floating charge debenture in favour of the Company's bank (See Note 8).

The Series A debentures are redeemable at the Company's option at a premium of 10% to June 30, 1971. Thereafter, the premium decreases 1% per annum to the maturity date, June 30, 1980.

The Series A debentures are convertible at the option of the holder at any time prior to June 30, 1980 into common shares of the Company at a conversion price of \$15 per share.

The trust deed securing the debentures contains restrictions on the payment of dividends unless the Company is able to meet certain tests set forth in the trust deed.

5. Deferred income taxes:

The Company follows the tax allocation principle of providing for

income taxes. Under this principle, deferred income taxes result from capital cost allowances claimed for tax purposes in excess of depreciation and amortization recorded in the accounts, and financing expenses and deferred charges and other costs which may be written off for income tax purposes during the year incurred.

6. Stock options and reservation of shares:

In connection with the Company's Employee Stock Option Plan, 100,000 common shares have been reserved. During 1970, the following options were granted:

Exercisable over the Period Ending	Option Price per share	Number of Shares Optioned
October 29, 1980	\$15.50	12,000
November 23, 1980	17.00	46,850
		<u>58,850</u>

200,000 common shares are reserved for issue pursuant to the conversion option granted to the holders of the Series A debentures (See Note 4).

7. Lease obligations:

Property and equipment rental for the year ended December 31, 1970 amounted to \$1,065,165.

Annual minimum rentals payable under long-term leases in effect as at December 31, 1970 (excluding insurance, property taxes and certain other occupancy charges) are as follows:

1971 — \$1,438,440	1975 — \$1,338,192	1979 — \$1,216,444
1972 — 1,494,008	1976 — 1,278,068	1980 to 1995
1973 — 1,469,649	1977 — 1,268,910	inclusive — 8,688,316
1974 — 1,431,289	1978 — 1,235,743	

8. Bank indebtedness:

Although the Company was not indebted to the bank as at December 31, 1970, a collateral floating charge on all the assets of the Company was held by the bank. The Company has also given the bank a general assignment of book debts and assignments of insurance policies on the life of an officer in the amount of \$2,100,000.

9. Remuneration of directors and senior officers:

The aggregate direct remuneration paid by the Company and its consolidated subsidiaries to the senior officers of the Company for the year ended December 31, 1970 was \$153,133.

10. Earnings per share:

There would be no dilution of earnings per share for 1970 if all of the convertible debentures outstanding at December 31, 1970 had been converted into common shares as of the debenture issue date and the stock options had been exercised when granted.

Consumers Distributing Company Limited

62 Belfield Road
Rexdale 603, Ontario

39 Showrooms in 26 Ontario Communities

Toronto

1536 Midland Avenue
301 Danforth Road
660 Eglinton Avenue East (Sunnybrook Plaza)
5825 Yonge Street (Newtonbrook Plaza)
585 St. Clair Avenue West
1200 Castlefield Avenue
877 Wilson Avenue
62 Belfield Road
5230 Dundas Street West (Six Points Plaza)

Barrie

353 Bayfield Street

Belleville

211 North Front Street

Brampton

239 Queen Street East

Brantford

331 King George Road

Burlington

2340 Fairview Avenue

Chatham

351 Richmond Street

Cooksville

93 Dundas Street East

Cornwall

East Court Mall

Hamilton

70 Sanford Avenue North
319 Nash Road North

Kingston

71 Princess Street

Kitchener

1253 King Street East

London

352 Talbot Street
476 Clarke Road
390 Springbank Drive

North Bay

Nipissing Plaza

Oakville

1054 South Service Road

Ottawa

867 St. Laurent Boulevard
254 Preston Street
1616 Merivale Road

Peterborough

Market Place Shopping Centre

Sarnia

1249 London Road East

St. Catharines

43 James Street

Stratford

447 Huron Street

Sudbury

1549 Fairburn Street*

Waterloo

25 King Street South

Welland

Lincoln Plaza

Whitby

1810 Dundas Street East

Windsor

2400 Dougall Avenue

Woodstock

972 Dundas Street

* Franchise

Directors

L. S. D. Fogler, Q.C. *Barrister and Solicitor, Toronto*
A. J. Latner, *President, Greenwin Construction Co., Toronto*
Jack Stupp, *Toronto*
Lillian Stupp, *Toronto*
H. L. Wolfson, *Economic Consultant, Toronto*

Executive Officers

Jack Stupp, *President*
L. S. D. Fogler, Q.C., *Secretary-Treasurer*
Albert Binstock, *Vice-President Merchandising*
C. D. Scott, *Vice-President*
Peter M. C. Onions, F.A.I.A., *Comptroller*

Transfer Agent and Registrar

Guaranty Trust Company of Canada, Toronto

Auditors

Laventhol Krekstein Horwath & Horwath, Toronto

Bankers

Canadian Imperial Bank of Commerce

Listed

The Toronto Stock Exchange

Head Office

62 Belfield Road, Rexdale

Consumers Distributing Company Limited

62 Belfield Rd., Rexdale 603, Ontario